

Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 FEA-01 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 ERDA-05 AID-05 CEA-01 CIEP-01 COME-00 EB-07

FPC-01 INT-05 OMB-01 SAM-01 OES-06 STR-04 TRSE-00

ACDA-07 /100 W

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 6229

C O N F I D E N T I A L LAGOS 9062

E.O. 11652: GDS

TAGS: ENRG, US, NI

SUBJECT: GULF OIL INTEREST IN NIGERIA

REF: STATE 195119

1. BEFORE RETURNING TO U.S. FOR CONSULTATIONS AT GULF HEAD-
QUARTERS AND VACATION, MANAGING DIRECTOR OF GULF OIL NIGERIA, DR.
JAMES HUITT CALLED AT EMBASSY TO DISCUSS NIGERIAN SITUATION WITH
ECON COUNSELOR CAHILL AND PETROLEUM OFFICER ATCHLEY.

2. AS HE IS PRONE TO DO, HUITT SAW SCENE IN BLEAK TERMS, SAID
HE AND HIS ADVISERS, BOTH NIGERIAN AND AMERICAN, FELT CHIEF OF
STAFF YAR-ADUA DEFINITELY ANTI-AMERICAN, AND UNFORTUNATELY RISING
RAPIDLY TO PRE-EMINENT POSITION IN NIGERIAN LEADERSHIP. HUITT
ALSO NOTED LEFTIST AND ANIT-AMERICAN TENOR OF ACADEMIC CIRCLES,
AND SAID XENOPHOBIA SPREADING TO YOUNG EXECUTIVES.

3. HUITT DECLARED HE WOULD NOT BE AT ALL SURPRISED IF FMG
EVENTUALLY DECIDED TO TRY TO USE ITS OIL AS A POLITICAL WEAPON
AGAINST THE U.S., PARTICULARLY IN VIEW OF THE STEADY INCREASE IN
U.S. DEPENDENCE ON IMPORTS OF

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NIGERIAN CREDE. EMBOFF OBSERVED THAT NEED FOR

REVENUES TO KEEP DEVELOPMENT GOING AND MAINTAIN ITS POLITICAL MANDATE SEEMED LIKELY TO DISSUADE FMG FROM SHUTTING OFF THE PUMPS. HUITT DISAGREED COMPLETELY, SAYING SMC HAD ONLY TO BLAZON HEADLINES ACROSS THE PAPERS THAT IT WAS MAKING A NOBLE SACRIFICE TO STRIKE A VALIANT BLOW AGAINST THE WHITE, IMPERIALIST WEST, AND THE CORDINARY MAN WOULD BE OUT IN THE STREETS CHEERING REGARDLESS OF THE ECONOMIC CONSEQUENCES.

4. HUITT FELT THAT, AS A COMPANY, GULF OIL WAS SOMEWHAT TRAPPED AND VULNERABLE IN AFRICA, DEPENDENT FOR A LARGE CHUNK OF ITS WORLD-WIDE PRODUCTION ON NIGERIA AND ANGOLA, BOTH OF WHICH WERE INTERLINKED AND HIGHLY SENSITIVE TO CURRENT NIGERIAN-AMERICAN TENSIONS OVER ISSUES IN SOUTHERN AFRICA. HE, AND PRESUMABLY HIS COMPANY'S DIRECTORS, WOULD BE INTERESTED IN WHAT THE U.S. GOVERNMENT MAY BE DOING WHICH COULD LESSEN THIS TENSION AND DIMINISH THE CHANCES OF A NIGERIAN OIL EMBARGO EVER HAPPENING (HUITT PROBABLY FEELS THE ANSWER IS NOT MUCH).

5. ONE CONSEQUENCE OF HUITT'S PESSIMISM IS THAT HE NOT ONLY AGREES WITH MOST OF THE OIL COMPANIES THAT THE RECENT POSTED AND DIRECT SALE PRICE CHANGES (WHICH ADDED ABOUT 16 CENTS TO COMPANY MARGINS ON EQUITY OIL) ARE INSUFFICIENT INCENTIVES TO STIMULATE ANY NEW EXPLORATION AND DRILLING ACTIVITY, BUT HE ALSO MAY FEEL THAT NEW INVESTMENT IS TOO RISKY BECAUSE OF POLITICAL FACTORS REGARDLESS OF WHATEVER NEW ECONOMIC INCENTIVES THE FMG MIGHT OFFER. YET HUITT IN ACTION HAS SHOWN CONSIDERABLE SKILL IN COOPERATING AND ADAPTING TO POLITICAL REALITIES IN ORDER TO GET PRODUCTION FROM GULF'S EXISTING INVESTMENT BACK UP CLOSER TO CAPACITY (BULF IS NOW PUMPING ABOUT 210,000 BARRELS PER DAY). NO OIL COMPANY COULD CONTINUE OPERATING HERE FOR VERY LONG WITHOUT INVESTING IN NEW PRODUCTION, AND NIGERIAN CRUDE IS PRIZED, SO, WHILE GULF MAY SEEK TO DIVERSIFY ITS INVESTMENT IN DEVELOPING NEW SOURCES OF CRUDE, IT SEEMS UNLIKELY THE COMPANY WILL WRITE OFF NIGERIA COMPLETELY. IT WOULD BE INTERESTING TO KNOW IF GULF OFFICIALS WHO TALK TO AF/W SEEM TO HAVE DRAWN ANY CONCLUSIONS ABOUT WHETHER IT WOULD BE BETTER TO MUDDLE ON UNDER THE PRESENT EQUITY PARTICIPATION

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SETUP, OR WHETHER THEY WILL TURN OFF THE INVESTMENT TAPS AND TRY TO FORCE A CHANGE IN THEIR RELATIONSHIP WITH THE FMG ALONG THE LINES OF PRODUCTION SHARING CONTRACTS, SANS INVESTMENT RESPONSIBILITIES.

6. OTHER OIL COMPANY EXECUTIVES ALSO NOTE THE NEGATIVE ASPECTS OF NIGERIAN SITUATION, AND THERE IS TRUTH IN WHAT HUITT SAYS, BUT THEY ALSO SEE TO A GREATER DEGREE

WHATEVER POSITIVE ASPECTS THERE ARE. EMBASSY TENDS TO BELIEVE THAT THERE WILL BE NO DRAMATIC CHANGES IN GULF OIL'S POLICY. COMPANIES WILL PUT THEIR MONEY ELSEWHERE IF THE ECONOMICS HERE ARE BAD. THIS IS TRUE OF PHILLIPS, TEXACO, ASHLAND AND MOBIL JUST AS MUCH AS GULF. THE FMG WILL NOT REACT TO COMPANY WARNINGS UNTIL IT SEES OVERWHELMING EVIDENCE THAT SOMETHING IS HAPPENING WHICH IT DOESN'T WANT TO HAPPEN. THAT MAY TAKE MORE PAINFULLY OBVIOUS EVIDENCE THAN ONE WOULD CONSIDER NECESSARY, AND THE CONSEQUENCE MAY IN FACT BE AN INVOLUNTARY DECLINE IN PRODUCTION AT THE END OF THIS DECADE. BUT IT PROBABLE THAT FMG WILL, HOWEVER GRUDGILY, OFFER NEW INCENTIVES, BIT BY BIT, UNTIL COMPANIES BEGIN TO INVEST AGAIN. SITUATION WILL NOT BE IDEAL FROM POINT OF VIEW OF EITHER SIDE, NOR WILL NIGERIAN DECISIONS BE PERFECTLY LOGICAL. BUT WE TEND TO THINK THE COMPANIES WILL HANG IN THERE. CAHILL

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